Please write clearly in block capitals.

Centre number | | | | | | Candidate number | | | | |

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I declare this is my own work.

GCSE
ECONOMICS

Paper 2 How the economy works

Time allowed: 1 hour 45 minutes

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

Materials
You will need no other materials.
You may use a calculator.

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions should be answered in continuous prose. You will be assessed on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

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Section A

Answer **all** questions in the spaces provided.

For questions with four responses, only **one** answer per question is allowed.

For each question, completely fill in the circle alongside the appropriate answer.

CORRECT METHOD ⬬ WRONG METHODS

If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

0 1 A budget deficit is best described as which of the following?

[1 mark]

A Where government expenditure is more than government revenue ⬭

B Where government revenue is more than government expenditure ⬭

C Where the value of exports is greater than the value of imports ⬭

D Where the value of imports is greater than the value of exports ⬭

0 2 Which of the following is an example of a supply-side policy?

[1 mark]

A Decrease in interest rates ⬭

B Decrease in the money supply ⬭

C Increase in business taxation ⬭

D Increase in training expenditure ⬭

Do not write outside the box

0 3 Which of the following best describes the type of unemployment caused by a general lack of spending in the economy?

[1 mark]

A Cyclical

B Frictional

C Seasonal

D Structural

0 4 **Table 1** shows the Consumer Prices Index (CPI) for an economy.

Table 1

Date	**CPI**
December 2018	114.6
December 2019	118.3
December 2020	123.1

Using **Table 1**, the annual inflation rate at December 2020 to 1 decimal place is:

[1 mark]

A 3.2%

B 3.7%

C 4.1%

D 4.8%

Turn over for the next question

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0 5 Which of the following pairs of policy changes is the most appropriate response to the problem of rising inflation and high economic growth?

[1 mark]

	Government spending	Tax rates	
A	Decrease	Decrease	⬭
B	Decrease	Increase	⬭
C	Increase	Decrease	⬭
D	Increase	Increase	⬭

0 6 'Using money means that people can buy products now but do not have to pay for them until sometime in the future.'

Which function of money does the above statement most closely relate to?

[1 mark]

A Means of deferred payment. ⬭

B Medium of exchange. ⬭

C Store of value. ⬭

D Unit of account. ⬭

0 7 Which of the following is a direct tax?

[1 mark]

A Excise duty. ⬭

B Income tax. ⬭

C Sugar tax (on soft drinks). ⬭

D Value added tax. ⬭

Do not write outside the box

0 8 Which of the following would best reduce income inequality?

[1 mark]

	Welfare benefits	Personal tax-free allowances
A	Decrease	Decrease
B	Decrease	Increase
C	Increase	Decrease
D	Increase	Increase

0 9 Which of the following is the least likely reason for increased globalisation?

[1 mark]

A Faster and cheaper transport links.

B Improvements in communications.

C Increased tariffs and quotas on foreign trade.

D Pressure on businesses to produce in low-wage economies.

1 0 Which of the following identifies the effects a significant increase in the exchange rate will have on inflation and the current account balance?

[1 mark]

	Inflation	Current account balance
A	Decrease	Improve
B	Decrease	Worsen
C	Increase	Improve
D	Increase	Worsen

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1 1 State **two** UK Government economic objectives.

[2 marks]

Objective 1 _____

_____

Objective 2 _____

_____

1 2 Explain **one** disadvantage of using supply-side policies.

[2 marks]

_____

_____

_____

_____

1 3 Explain **one** benefit of globalisation to producers from a developed economy.

[2 marks]

_____

_____

_____

_____

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1 4 **Table 2** shows balance of payments data for an economy.

Table 2

	£ billion
Current account balance	–14.6
Primary income balance	–1.2
Secondary income balance	+2.8

1 4 . 1 Using **Table 2**, calculate the value of the balance of trade in £ billions.

[2 marks]

£_____

1 4 . 2 Explain **one** reason why the value of a country's imports might be larger than the value of exports.

[2 marks]

Turn over for the next question

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Figure 1

In 2020 the government expected to spend over £900 billion. This spending is mainly funded by tax revenue. Changes in government spending and tax rates are known as fiscal policy. Fiscal policy can be used to achieve the government's economic objectives. For example, governments can spend money on improving education, which may help reduce unemployment. Changes in tax can also reduce the unemployment rate.

1 5 Analyse how fiscal policy can help a government achieve lower unemployment.

[6 marks]

Extra space

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1 6 State **two** government policies used to correct market failure associated with positive externalities.

[2 marks]

Policy 1 _____

_____

Policy 2 _____

_____

1 7 Explain **one** benefit of free trade for UK producers.

[2 marks]

_____

_____

_____

_____

1 8 Explain **one** role of the Bank of England.

[2 marks]

_____

_____

_____

_____

Turn over for the next question

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1 9 . 1 An individual decides to open a savings account with a deposit of £8000. The annual interest rate paid on these savings is 1.2%. If they close the account after nine months, calculate how much interest they would receive on their account.

[2 marks]

£_____

1 9 . 2 Explain **one** effect of a fall in interest rates on UK producers.

[2 marks]

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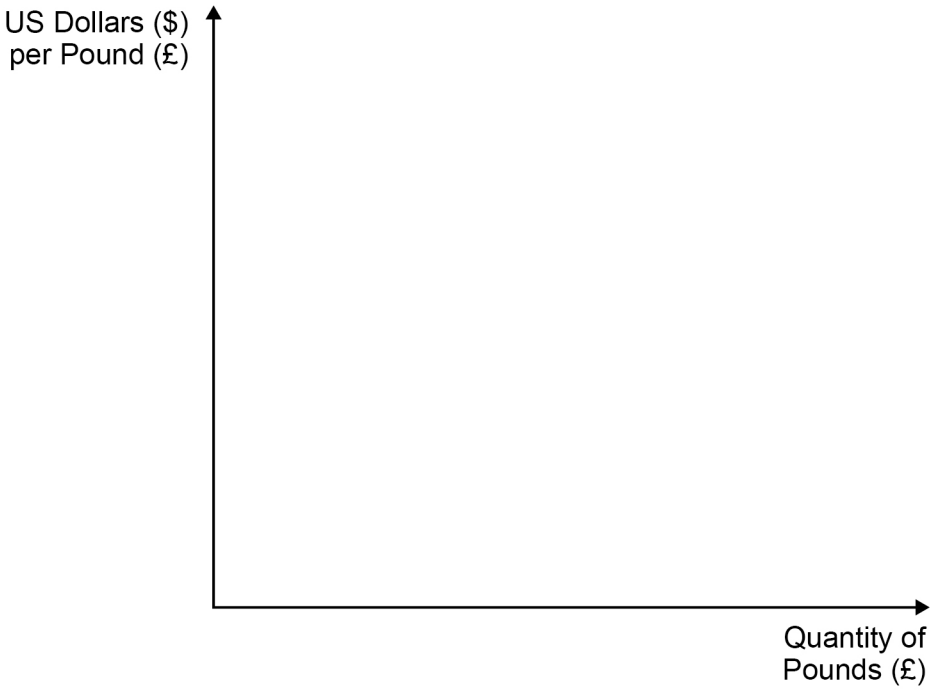
2 0 **Figure 2** shows the US Dollar ($) to the British Pound (£) foreign exchange market.

2 0 . 1 On **Figure 2**, draw a supply and demand diagram, and label the effects on the exchange rate of increased UK exports to the USA.

[3 marks]

Figure 2



Turn over for the next question

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Figure 3

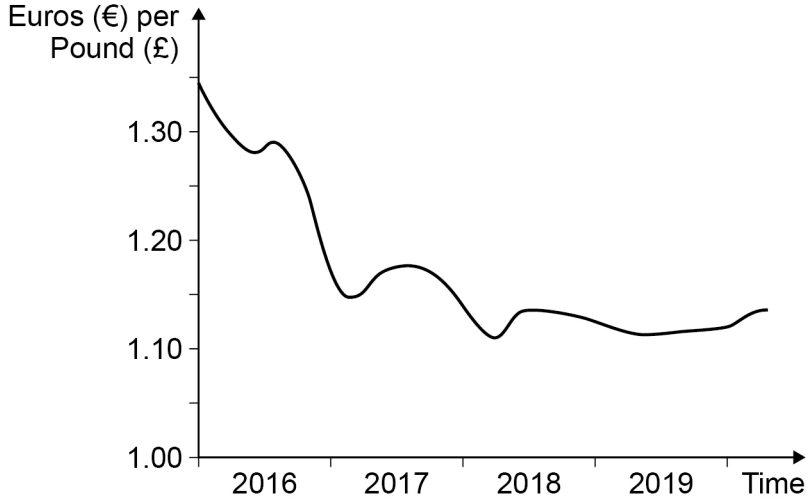
Since 2016, the British Pound (£) has remained at a low value against other currencies. This was partially caused by the uncertainty created following the UK's decision to leave the European Union (EU).

A low (or weaker) exchange rate will affect both consumers and producers in the economy. Businesses that export goods and services are affected when the currency changes in value. Import prices will change, which also affects UK businesses.

Consumers taking foreign holidays and those who buy goods from overseas are affected by changes in the exchange rate.

The diagram here shows that the exchange rate fell by approximately 20% and, although it has risen since, it has remained low against the Euro (€) more or less throughout this period.

Euro (€)/British Pound (£) exchange rate 2016–2019



2 1 Using **Figure 3**, assess whether people in the UK benefitted from changes in the exchange rate between 2016 and 2019.

Justify your answer.

[9 marks]

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48

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Section B

Answer **all** questions in the spaces provided.

Item A

Some economists believe that the UK economy has not performed well in the years leading up to 2020. In 2019, economic growth was lower than it had been for a number of years. Inflation, partly caused by the fall in the value of the Pound (£), meant people's incomes fell in real terms for much of the period after 2010. Higher inflation might also affect the UK's export industries.

There is also uncertainty over the UK's future relationship with the European Union (EU) following the 2016 referendum. This uncertainty is likely to lead to fewer businesses locating in the UK and may lead to less business investment as future trading conditions reduce business confidence.

However, other economists are more optimistic about the UK's economic performance. Recession was avoided after the 2016 referendum and unemployment kept falling and looks likely to remain much lower than in other countries.

Government policy may also help improve people's living standards. Decreases in the amount of tax people pay on their incomes have boosted people's disposable incomes. Promised increases in spending on health and education by the government may also improve people's lives. In addition, interest rates are unlikely to rise significantly above their historically low levels over the next few years. Government ministers point to the rising GDP per capita over the period as evidence of how living standards have improved.

Table 3 – UK population and GDP

	Population (in millions)	**GDP (in £ millions)**
2011	63	1 660 000
2016	65	1 995 000

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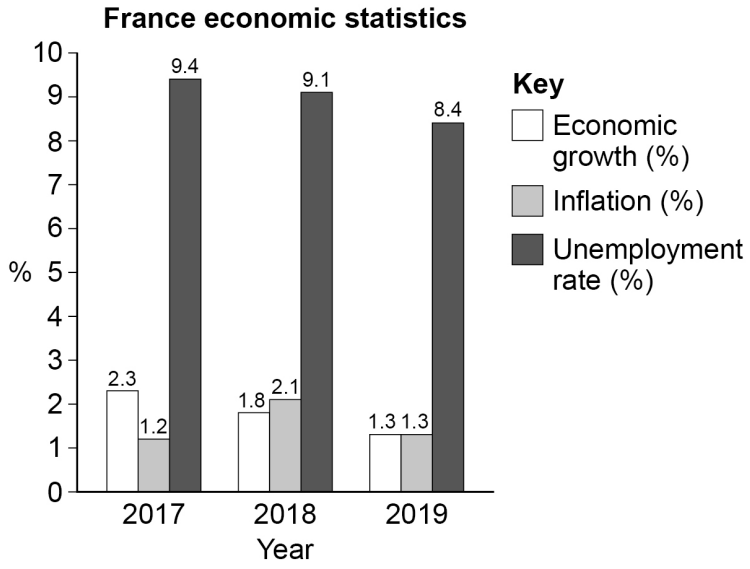
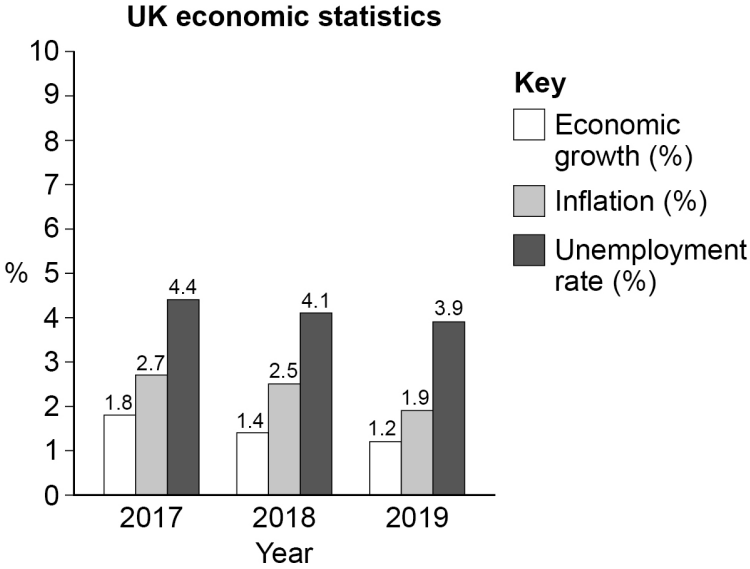
Item B

France and the UK have similar population sizes. The value of GDP per capita is also similar. However, there are differences in how the French and the UK economies have performed.

In France, economic growth has remained higher than that of the UK and is forecasted to continue to be higher than the UK for the next few years. Inflation has been lower in France compared with the UK, though this is because the fall in the British Pound's value increased cost-push inflation between 2017 and 2019. Although unemployment is falling in France, it is much higher than that experienced in the UK. This causes problems for the government, such as less tax being collected and more spending on benefits.

Given the similarities between France and the UK, there is disagreement over which economy is performing better.





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2 2 Define the term cost-push inflation.

[2 marks]

2 3 Using **Table 3** in **Item A** calculate the percentage change in the UK's GDP per capita from 2011 to 2016.

Give your answer to 1 decimal place.

[3 marks]

_____%

2 4 Using **Item A** explain **two** consequences of inflation for people in the UK.

[6 marks]

Consequence 1 _____

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Consequence 2

2 5 Using **Item B**, analyse possible benefits to the government of low unemployment.

[6 marks]

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2 6 Was the UK economy performing better than the French economy in 2019?

Use **Items A and B** and your own economic knowledge to justify your view.

[15 marks]

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32

END OF QUESTIONS

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